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Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari
to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICI CURIAE* INTELLECTUAL PROPERTY PROFESSORS AND AMERICAN ANTITRUST INSTITUTE IN SUPPORT OF PETITIONER

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD INTELLECTUAL PROPERTY AND INNOVATION CLINIC
MILLS LEGAL CLINIC AT STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

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INTEREST OF *AMICI CURIAE*

Amici law professors, listed in the Appendix, are thirty academics who study intellectual property and innovation.[1] Their interest in this case stems from their professional academic interest in guiding the development of law in the way that most benefits society. *Amici* have no personal interest in the outcome of this case.

Amicus the American Antitrust Institute (AAI) is an independent, nonprofit organization devoted to promoting competition that protects consumers, businesses, and society. It serves the public through education, research, and advocacy on the benefits of competition and the use of antitrust enforcement as a vital component of national and international competition policy. The AAI has long recognized the important role that exhaustion doctrine plays in facilitating competition in product markets driven by intellectual property, including aftermarkets. *See, e.g.*, Brief for *Amicus Curiae* American Antitrust Institute in Support of Petitioners, *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937).

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[1] The parties have consented to the filing of this brief; their written consents are on file with the Clerk. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person other than the *amici* or their counsel made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

The Federal Circuit below strayed from this Court's guidance on core exhaustion issues and eviscerated important limits on patent holders' rights. This Court should restore those limits, which are necessary to protect the public interest.

A patent should provide only enough insulation from competition to incentivize innovation. Once a patentee has received his reward, this Court's precedent encourages public use and dissemination of patented articles through patent exhaustion doctrine, which limits a patentee's ability to control a patented article after placing it in the stream of commerce. Having authorized the first sale of a patented article, a patentee's rights in the subsequent use of that article are no greater than if it had never been patented.

The Federal Circuit below radically reconceptualized this longstanding doctrine as a mere presumption of authority, which conflicts with this Court's common-law precedent going back over 150 years. Under the Federal Circuit's reading, exhaustion doctrine is merely a default arrangement that a patentee can change with contract terms—or even unilateral pronouncements—not a hard-and-fast limit on a patentee's rights. But *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), clarified that any authorized sale exhausts patent rights. Moreover, any conditions pursuant to an authorized sale are properly enforced via contract, not patent law, provided that such conditions amount to valid agreements.

The Federal Circuit similarly lost sight of exhaustion's core purpose when it held that foreign

sales authorized by the U.S. patentee never exhaust U.S. patents. This holding clashes with this Court's opinion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). *Kirtsaeng* rejected the idea that international copyright exhaustion implicates extraterritoriality and reaffirmed the common-law principles against restraints on alienation that animate both copyright and patent exhaustion. Furthermore, exclusive rights do not provide for market segmentation, and the concern below about access to medicines is misplaced. Effects on pharmaceuticals, if any, are properly addressed with pharmaceutical-specific legislation, not sweeping changes to patent law that would have ramifications for the free movement of all patented goods.

This Court should correct the Federal Circuit's erroneous interpretation of exhaustion doctrine by clarifying that any authorized sale triggers patent exhaustion, and that a patentee's remedies for violations of post-sale restrictions lie in contract, not patent law.

ARGUMENT

I. This Court Has Recognized That Exhaustion Is an Important, Longstanding Doctrine That Promotes Diffusion of Technology Through Channels of Commerce

The time-honored doctrine of patent exhaustion provides that once a patented article is sold by the patentee or someone authorized by the patentee, the patentee's rights in that article are spent. The purchaser may subsequently use or dispose of the article the same way he can dispose of his other, unpatented possessions. Exhaustion is deeply rooted

in common-law policies against restraints on alienation and double recovery, and it places important limits on the rights the public grants to patentees in exchange for their inventions. Aaron Perzanowski & Jason Schultz, *The End of Ownership: Personal Property in the Digital Economy* 159-60 (2016) ("Limiting patent holders to a single recovery also guards against the abuse that would likely occur if patent holders were granted ongoing control over products released into the stream of commerce[.]"); *see also Adams v. Burke*, 84 U.S. 453, 456 (1873) ("[T]he patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.").

A clear exhaustion rule promotes the alienability of patented articles and reduces transaction costs. Unlike clear, reliable property rights, idiosyncratic arrangements of rights that depend on what covenants or conditions an upstream seller has attached to a chattel impose high information costs on purchasers. *See* Zechariah Chafee, Jr., Comment, *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 Yale L.J. 1, 26-28 (2000). Consequently, the law has almost uniformly found personal property servitudes unenforceable. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 906 (2008). Post-sale restrictions on patented articles present the same

concerns, and this Court has rejected them for the same reasons. *See Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) ("[I]t must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology . . . ."); *see also* Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill. J.L. Tech. & Pol'y 445, 472 (describing information costs associated with multiple royalty transactions).

Exhaustion doctrine also prevents patentees from extracting a patent royalty at multiple stages in a product's distribution chain, which would compensate them in excess of the societal benefit their inventions have provided. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 513 (1917) ("If [a patentee's] discovery is an important one, his reward under such a construction of the law will be large, as experience has abundantly proved; and if it be unimportant, he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it."). Patentees' double recovery of a patent rent, once when a patented article is first sold, and again when it is resold, is inconsistent with this Court's direction that "[patentees] are entitled to but one royalty for a patented machine." *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863). Exhaustion doctrine arose to limit patentees' rights to those necessary to incentivize innovation. Patentees have substantial control over the first sale of a patented article, but once they have extracted one patent royalty, patent doctrine

encourages dissemination of the patented article to the public. *See Millinger*, 68 U.S. at 350 ("[p]atentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions for the period of time specified in the patent, but when they have made and vended to others to be used one or more of the things patented, to that extent they have parted with their exclusive right.").

This Court has recognized this affirmative policy on the free movement of goods as the rationale behind exhaustion in the context of both use and geographic restrictions. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (emphasizing in the copyright context "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods"). Accordingly, this Court has consistently refused to enforce patentees' post-sale restrictions. *See, e.g.*, *Straus*, 243 U.S. at 500-01 (invalidating a price-fixing "license notice" attempting "to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest").

Similarly, this Court has recognized that geographic restraints on alienation offend the public's interest in dissemination of patented goods. *See Adams v. Burke*, 84 U.S. 453; *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895). In both *Adams* and *Keeler*, the patentees had assigned the rights to make, use, and sell patented articles to different manufacturers in different U.S. regions. Yet this Court held that when a purchaser bought patented articles from a manufacturer with rights in one

locality, and subsequently used or sold them in another manufacturer's locality, the second manufacturer had no rights against the user or reseller. *Keeler*, 157 U.S. at 666 ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."); *Adams*, 84 U.S. at 456-57. The Court announced that "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration," *Keeler*, 157 U.S. at 667. Furthermore, in *Kirtsaeng*, this Court held that copyright's first-sale doctrine cannot be read to incorporate geographic distinctions in light of the common-law policy against personal property servitudes. *Kirtsaeng*, 133 S. Ct. at 1363. This policy similarly drives patent law.

Furthermore, this Court has recognized that the constitutional underpinnings of and policy goals underlying exhaustion doctrine do not provide a market segmentation or price discrimination right. *Kirtsaeng*, 133 S. Ct. at 1371 ("But the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain."). Rather, market segmentation and price discrimination are properly enforced through contract law and legislation specifically tailored for those practices.

II. This Court Should Reject the Federal Circuit's Radical Reconceptualization of the Exhaustion Doctrine and Restore Patent Exhaustion to Its Proper Role in Accordance with Established Precedent

The Federal Circuit below abandoned exhaustion's long-standing limit restricting the rights of patentees to exercise downstream market control over patented articles released into the stream of commerce. It wholly reconceptualized exhaustion from a bedrock policy rejecting restraints on alienation to a mere "presumption" of "authority" which patentees can revoke at will. This Court should reject the Federal Circuit's unwarranted transformation, which vitiates exhaustion doctrine, and restore exhaustion as articulated by this Court.

The Federal Circuit's misunderstanding of exhaustion caused it to mistakenly hold that a patent grants to its owner unlimited power to exclude any and all uses of the patent so long as the restrictions are "within the scope of the patent grant"—contrary to this Court's consistent rejection of post-sale restraints to prevent patent exhaustion. In recasting this Court's precedent as supporting exhaustion only as a presumption of authority subservient to the purposes of antitrust, the Federal Circuit also short-changes the important public policies underlying exhaustion doctrine.

This Court should restore the exhaustion doctrine to its proper scope and ensure that patentees enjoy only those rights the law entitles them to.

A. This Court Should Correct the Federal Circuit's Interpretation of "Authority" in § 271, Which Evades This Court's Precedent

The Federal Circuit decided that the exhaustion doctrine is textually tied to the word "authority" in § 271 of the 1952 Patent Act, such that the question of what is and is not infringement depends only on what authority the patentee has granted. According to the Federal Circuit, "[i]f ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language." Pet. App. 24a. In its view, because "nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts . . . to authorize," no such constraints exist. Pet. App. 24a. This logic effectively eviscerates exhaustion, suggesting that any post-sale restriction, whether enforceable as a contract or not, defeats exhaustion.

This Court should not let stand the Federal Circuit's flawed reasoning, which ignores that exhaustion is grounded in nearly 150 years of this Court's precedent, not in the text of the 1952 Patent Act. The 1952 statute was enacted against the backdrop of this Court's established exhaustion doctrine. The fact that Congress did not choose to codify that doctrine does not mean that more than a century of judicial common law should be abandoned. *See Kirtsaeng*, 133 S. Ct. at 1363 ("'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" (alteration

in original) (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010)); *United States v. Texas*, 507 U.S. 529, 534 (1993) ("In order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law."). The patent exhaustion doctrine itself constrains the patentee's choices. The Federal Circuit cannot diminish this doctrine's independent legitimacy by ignoring its common-law origins any more than it is free to eliminate by judicial fiat patent law's doctrine of equivalents or the equitable defenses of laches and estoppel.

Though the Federal Circuit acknowledges that the "authority" in § 271(a) can come from sources other than the patentee, such as the patent law itself, it denies that the exhaustion doctrine could be such a source, simply because it is uncodified. Pet. App. 22a ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee . . . ."). But ignoring patent principles simply because they are not codified would have eviscerated many of patent law's central doctrines, including patentable subject matter, the doctrine of equivalents, obviousness, and the presumption of validity, all of which began life as common-law creations.

The Federal Circuit's parsing of the word "authority" improperly reduces the exhaustion doctrine to a species of implied license. This Court has clarified that implied license is a separate defense from that of exhaustion, even under the 1952 Act. *See Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 (2008) ("[T]he question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based

not on implied license but on exhaustion."). Therefore, exhaustion must be more than just a presumption of authority with no independent force.

Properly interpreted, § 271(a)'s "without authority" refers to sales that the patentee has not consented to, or, in the case of sales by licensees, sales that explicitly violate license terms on which the authority to sell is conditioned. Whether a sale is "authorized" must be determined based on the facts known to the licensee when the sale was made. Good faith sales by licensees exhaust patent rights in the items sold. It is contract, not patent law that provides the appropriate remedy when the contract is breached after a licensee's good faith sale. Otherwise, even years after a sale, a purchaser could retroactively impose patent liability on a licensee by violating post-sale restrictions, leaving the licensee liable for patent infringement despite the licensee's good faith belief that the sale had complied with the license terms. Allowing post-sale facts to determine whether a sale was authorized to begin with would thus preclude licensees from making any "normal" or "final" sales free from patent infringement liability. Moreover, limiting the determination of authority to the facts known by licensees at the time of sale leaves patentees free to recover contract remedies for post-sale breach of contract terms so long as patentees contract appropriately to retain those remedies.

B. This Court Should Correct the Federal Circuit's Enforcement of Post-Sale Restraints to Abrogate Patent Exhaustion Because It Evades This Court's Precedent

The Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992),

reaffirmed en banc below, was contrary to Supreme Court precedent when it was decided. The *Quanta* Court's opinion further undermined *Mallinckrodt*'s foundation. This Court should explicitly overrule *Mallinckrodt*, clarify that any authorized sale triggers patent exhaustion, and preclude patentees from recovering patent remedies for purchasers' violations of post-sale use restrictions. Any recovery for such violations in authorized sales should necessarily be limited to contract remedies.

1. Since *Bloomer v. McQuewan*, 55 U.S. 539 (1852), this Court has acknowledged that when a patented item "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. In numerous decisions applying the exhaustion doctrine prior to 1952, this Court ruled that post-sale restrictions could not prevent patent exhaustion. *See, e.g.*, *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942) ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."); *see also* Pet. App. 106a-109a (Dyk, J., dissenting) (collecting cases); Pet. 12-13 (same). The Federal Circuit's view of exhaustion as a presumption within a patentee's control clashes with this Court's explanation that an authorized sale takes an article "outside" or "beyond the reach of the monopoly."

In discussing Supreme Court precedent below, the Federal Circuit misses the forest for the trees. Because it could not find in these cases an exact analog of the facts here at issue—a sale of a patented

article made subject to use restrictions that don't facially violate antitrust—the court refused to recognize that exhaustion doctrine applies more broadly, including to the factual circumstances in this case. Pet. App. 49a-56a. But it is not the role of the Federal Circuit to confine this Court's consistent rulings to their narrowest facts in order to unduly circumscribe the scope of exhaustion. In any event, the reasoning of this Court's exhaustion cases is not so limited.

Two examples are illustrative. First, in *Motion Picture Patents*, the Court held that the patentee could not, by way of a notice attached to the patented projector, require that it be used only with the patentee's own films (on which the patent had expired) on pain of patent infringement. *Motion Picture Patents*, 243 U.S. at 518. The court below, as it did in *Mallinckrodt*, distinguished *Motion Picture Patents* by relegating its holding solely to cases involving patent misuse. Pet. App. 53a-54a. But *Motion Picture Patents* emphasized longstanding policies, discussed above, against personal property servitudes and double recovery. It noted that patent law did not allow a patentee:

> to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost, inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it.

Motion Picture Patents, 243 U.S. at 516. Despite its facts, *Motion Picture Patents* cannot be viewed as a case pertaining only to patent misuse. Instead, the principles it discusses are broadly applicable to exhaustion cases.

Second, the Federal Circuit improperly dismissed this Court's principles, articulated in *Adams*, 84 U.S. 453, and *Keeler*, 157 U.S. 659, as pertaining only to the "unconditional" sales described in those cases, Pet. App. 29a, 36a, 50a-51a. Contrary to the Federal Circuit's interpretation, this Court has made clear that "the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine," *Adams*, 84 U.S. at 455, and that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles," *Keeler*, 157 U.S. at 666. And as the dissent below points out, nineteenth century "conditions" on sale more often connoted conditions on title transfer, not conditions on use. Pet. App. 115a-116a (Dyk, J., dissenting).

2. This Court should reaffirm what it made clear in *Quanta*: common-law exhaustion precedent survived the enactment of the 1952 Patent Act.

In *Quanta*, LGE licensed Intel to make and sell components substantially embodying its patents, but disclaimed any license to Intel's customers to combine those components with non-Intel parts. *Quanta*, 553 U.S. at 623. This Court rejected LGE's patent infringement claims against Intel's customers because LGE had unconditionally authorized Intel's sales, notwithstanding LGE's attempted post-sale restriction. *Id.* at 636-37. *Lexmark*'s rule that

parties can freely forestall exhaustion through contract[2] cannot stand against this Court's robust articulation of exhaustion doctrine that "the initial authorized sale of a patented item terminates all patent rights to that item." *Id.* at 625.

First, it is clear throughout *Quanta* that this Court was relying on its own exhaustion precedent; it was not "interpret[ing] . . . § 271(a)'s 'without authority' language." Pet. App. 24a. The opinion opens with the declaration: "For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. It does not even cite § 271. Thus, as recently as 2008, this Court cemented exhaustion as an independent, common-law doctrine that has been continuously applied for over a century. Exhaustion is not merely a gloss on the 1952 Act's text.

Second, while the court below cabined *Univis*'s holding to price-maintenance cases, Pet. App. 54a-55a, *Quanta* clarified that *Univis* applies more broadly. The *Quanta* Court made clear that "*Univis* governs this case," despite the absence of allegations of patent misuse or anticompetitive behavior in *Quanta*. *Quanta*, 553 U.S. at 631. As *Quanta* explains, *Univis* stands for the much broader proposition that an "authorized sale of an article which is capable of use only in practicing the patent

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[2] The court below relied on the parties' stipulation that the sticker notice at issue constituted a valid contract but did not independently determine whether the sticker notice was sufficient to create a valid contract.

is a relinquishment of the patent monopoly with respect to the article sold." *Id.* (quoting *Univis*, 316 U.S. at 249).

Third, the *Quanta* decision endorsed the principle that the exhaustion doctrine exists to broadly prohibit restraints on alienation. Though articulated in a part of the opinion discussing the exhaustibility of method patents, this Court recognized the "danger" that a contrary holding would permit an "end-run around exhaustion." *Quanta*, 553 U.S. at 630. It refused to accept a rule where, "although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable for patent infringement," because such a rule would "violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.'" *Id.* (quoting *Adams*, 84 U.S. at 457) (alteration in original) (emphasis omitted). This Court's policy concerns against personal property servitudes have equal force when applied to post-sale restrictions enforced via patent remedies because such restrictions also serve to restrain the downstream use of lawfully made and sold items.

3. While this Court in *Quanta* acknowledged the continuing validity of *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), that case is consistent with overruling *Mallinckrodt*. *General Talking Pictures* merely stands for the unremarkable proposition that (1) a patent owner may place restrictions on a manufacturer-licensee as to who is authorized to purchase a patented product, and

(2) one who purchases from a licensee who is violating its license is as liable as the licensee.

In *General Talking Pictures*, the Transformer Company had a license to sell amplifiers only for home use—two other companies were granted exclusive rights to sell for commercial use. *Id.* at 125-26. Transformer Company, knowing that General Talking Pictures would use them commercially, nevertheless sold amplifiers to General Talking Pictures, which in turn knew that the sale violated Transformer Company's license. *Id.* at 126. The Court held, unsurprisingly, that Transformer Company was an infringer for violating its license. *Id.* The Court also held that "as Pictures Corporation ordered, purchased and leased [the amplifiers] knowing the facts, it also was an infringer." *Id.* The case does not stand for the proposition that a term in a license between the patentee and a licensee binds all subsequent purchasers in patent law.

Rather, the case is simply one in which the sale was not authorized. *Quanta*, 553 U.S. at 636 ("The Court [in *General Talking Pictures*] held that exhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use, and the manufacturer 'could not convey to petitioner what both knew it was not authorized to sell.'") (quoting *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938)). That fact alone—that Transformer Company made an unauthorized sale—is enough to hold that exhaustion doctrine does not apply. In holding both parties liable for patent infringement, the Court emphasized the parties' knowledge that Transformer Company's sales violated its license. *Gen. Talking Pictures*, 305

U.S. at 126. Pictures Corporation was thus strictly liable because it purchased from Transformer Company, which was a direct infringer with respect to sales violating its license. *Id.* at 126-27.

The decision below improperly expanded *General Talking Pictures* to hold that patent liability can attach to downstream purchasers as well as manufacturer-licensees even in the case of a licensee's good faith sale. Pet. App. 26a ("It is undisputed and clear under Supreme Court precedent—most prominently, the 1938 decision in *General Talking Pictures*—that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions."). *General Talking Pictures* does not speak to this issue—it was concerned with a scenario in which both the licensee and the purchaser knew that the sales at issue violated the patentee's license and were thus unauthorized. *Gen. Talking Pictures*, 305 U.S. at 127 ("As the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to Transformer Company."). Unsurprisingly, the Court held Pictures Corporation liable, "because it ha[d] used the invention without license to do so," finding it "in no better position than if it had manufactured the amplifiers itself without a license." *Id.*

Moreover, the Federal Circuit's concern below, that practicing entities would be disadvantaged by a rule that enforces patent remedies against licensees, but not against those who purchase directly from

patentees, is misplaced. *See* Pet. App. 44a-45a. There is a perfectly good reason for this Court to enforce patent remedies against licensees who make and sell patented products, but not against simple buyers who purchase from a patentee. A manufacturer-licensee must obtain a patent license, and that license necessarily controls the number of products the licensee can put into the stream of commerce. Otherwise, any patentee who turned to a third party to manufacture its goods would lose control over how many of the patented goods were made and sold at all. If the patentee itself makes the goods and sells them, by contrast, it has by definition chosen to release those goods, and only those goods, into the market.

C. This Court Should Correct the Federal Circuit's Conception of Post-Sale Restraints, Which Mistakes the Place of Exhaustion Within the Broader Doctrine

1. The Federal Circuit Improperly Subordinated Exhaustion Doctrine to Contract and Antitrust Law

The Federal Circuit repeatedly states that post-sale restrictions must be "otherwise lawful" to be enforceable, Pet. App. 19a, 25a, 26a, 33a, 40a, 55a, 62a, by which it means that the restrictions by their terms must comport with, among other things, ordinary commercial and antitrust law, *id.* at 27a (citing *Mallinckrodt*, 976 F.2d at 703). But subordinating the determination of the limits of a patentee's rights to these other doctrines denies that the exhaustion doctrine has an independent public policy justification. Furthermore, the existence of a patent appears to influence the Federal Circuit's

interpretation of these other doctrines in a way that unnecessarily favors the patentee and harms the public interest.

a. Preventing patentees from violating contract or antitrust law when they impose post-sale restrictions may ensure that the goals of those other laws are served. But this Court should reaffirm that the exhaustion doctrine's purpose extends beyond promoting competition under the antitrust laws and allowing parties to make enforceable commitments under contract law. Exhaustion limits the rights of patentees to only what is required to incentivize innovation and avoids restraints on alienation that would prevent patented goods from diffusing through the channels of trade to the public benefit. Contract and antitrust law do not suffice to uphold the rationale of exhaustion.

Thus, this Court should continue to recognize exhaustion's importance beyond antitrust and commercial policy, and should not allow patentees to encumber patented goods with post-sale use restrictions enforceable via patent remedies. As the *Keeler* Court articulated, allowing such restrictions produces consequences representing an "inconvenience and annoyance to the public" that "are too obvious to require illustration." *Keeler*, 157 U.S. at 667.

The Federal Circuit's interpretation would allow a patentee to unilaterally impose any restriction it wished on any product it sold, and to have that restriction bind the first purchaser, and any subsequent purchasers, as a matter of patent, not contract law. The interpretation below would permit a patentee to sell its pharmaceuticals "only to be

swallowed whole," or a radio "only for use on Sundays," and sue someone who splits his pills or forgets the day of the week for patent infringement—even willful patent infringement. Less fancifully, a patentee could sell a car with a "no resale" restriction and shut down the market for used cars. Or, more analagous to the facts here, a patentee could sell a reusable product with a restriction on reuse, and sue anyone who recycled the product for patent infringement. Under the Federal Circuit's theory, even when the patentee authorizes the first sale of a patented good, he may sue all downstream purchasers for violating any post-sale restriction, even when a purchaser has no notice of the restriction. That is the consequence of treating a violation of any post-sale restriction as patent infringement (a strict liability offense), rather than simply a contractual breach.

It is no answer to say that patentees will not abuse this power and will impose only reasonable restrictions. Whether or not this Court considers a requirement to throw away a perfectly functional product rather than refilling it reasonable, a law that depends for its legitimacy on plaintiffs choosing not to enforce it is unsound—causing "uncertainty," "selective enforcement," and "disrespect" for the law. *Kirtsaeng*, 133 S. Ct. at 1366.

b. The Federal Circuit below enforced Lexmark's post-sale restrictions without even determining whether there was a valid contract between the parties. This exposes another danger of the Federal Circuit's revisionist theory of exhaustion doctrine: patentees may enlist the federal courts to grant powerful patent law remedies based on unilateral

post-sale restrictions otherwise unenforceable under contract law.

The Federal Circuit relied on the parties' stipulation that notice was adequate and there was an enforceable contract. Pet. App. 11a, 12a, 14a, 60a. However, it did not independently analyze whether a valid contract existed, and it did not acknowledge that notice alone is not enough to create a valid contract—at a minimum, a meaningful manifestation of assent is also required. *See* Mark R. Patterson, *Must Licenses Be Contracts?: Consent and Notice in Intellectual Property*, 40 Fla. St. U. L. Rev. 105, 123-24 (2012) (discussing the invalidity of *Mallinckrodt*'s label license as a contractual matter); *see also UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182-83 (9th Cir. 2011) (holding that a restrictive label license attached to a promotional CD was in fact a title transfer subject to first-sale doctrine because merely "accept[ing]" an unsolicited item did not constitute "acceptance" of the license terms). The Federal Circuit has recognized elsewhere that a "label license" is subject to scrutiny under ordinary contract law principles. *See, e.g.*, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("[A] seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product . . . ."). But the Federal Circuit decided *Lexmark* based on notice alone, without analysis even of which state's contract law would govern.

The Federal Circuit's misguided approach would permit precisely the sort of restraint on alienation against which this Court has repeatedly warned. It

would impose patent remedies on not only the first buyer, but also on the world at large. This approach should be rejected. At most, where a patentee has a valid contract, its remedy for violation of post-sale restrictions is limited to contract law.

c. As with contract law, the Federal Circuit's focus on the "scope of the patent" distorts its analysis of post-sale restrictions under antitrust law. This Court should recognize that the patent should play no role in the antitrust analysis if the patent rights are exhausted. Even in cases where the patent is not exhausted, this Court has recently affirmed that whether conduct is within the scope of the patent is partly a function of antitrust law. *Fed. Trade Comm'n v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[P]atent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent.").

2. This Court Should Reaffirm That Contract Remedies Adequately Protect the Post-Sale Interests of Patent Owners

The Federal Circuit's approach to exhaustion is contrary to this Court's frequent instruction that contract law provides the appropriate and adequate remedies to protect the post-sale interests of patent owners where there is a valid contract.

This Court first identified contract law as the proper framework to enforce post-sale use restrictions in *Keeler*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question

> before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666. Quoting that exact language, this Court in *Quanta* indicated its continued understanding that contracts would be the appropriate remedy. *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages." (citing *Keeler* with approval)); *see also Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law . . . .").

To be sure, contract remedies presuppose a valid contract. They also require privity and generally do not allow parties to obtain injunctions. Those are reasonable limits to impose on patentees seeking to burden downstream purchasers with significant transaction costs and restraints on trade by reaching beyond the patent law limits. And contract remedies put patentees in no worse a position post-sale than the many commercial entities who conduct business without the benefit of a statutory monopoly.

If this Court does not correct the Federal Circuit's misunderstanding of the relationship between patent law and other doctrines, patentees

will be able to stifle innovation by threatening or bringing patent suits for violations of any post-sale restriction. Patentees could obtain powerful patent remedies unavailable under contract law, even where such post-sale restrictions fail to constitute a valid contract.

III. This Court Should Reaffirm Its Precedent and Recognize That International Exhaustion Does Not Implicate Extraterritoriality

The Federal Circuit's holding in *Lexmark* restricting exhaustion to sales that occur within the physical territory of the United States is inconsistent with this Court's precedent rejecting geographic limits on exhaustion. *See* Pet. App. 104a. The opinion also mistakenly concluded that international exhaustion implicates extraterritoriality. *See id.* The Federal Circuit failed to recognize that patent exhaustion and copyright first-sale are rooted in the same common-law tradition, arise from the same constitutional clause, and share the same important policy rationales.

1. Since patent law lacks a statutory pronouncement limiting exhaustion to domestic sales, patent exhaustion is even more informed by the common-law tradition than copyright's codified first-sale doctrine. But the Federal Circuit ignored the significance of that tradition for exhaustion, reinterpreting and avoiding this Court's precedent.

The decision below relies on a misreading of a single case, *Boesch v. Graff*, 133 U.S. 697 (1890). *See, e.g.*, John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1198-201 (2011) (explaining the Federal Circuit's

misinterpretation of *Boesch* and collecting contrary precedent). The *Boesch* patentees held patents on a lamp-burner in both Germany and the United States. *Boesch*, 133 U.S. at 698-99. The defendant purchased lamp burners in Germany from Hecht, who had no license from the patentee, but was entitled to make and sell them in Germany as a "prior user" under German law. *Id.* at 701-02. The Court concluded that purchasers from Hecht would be liable for patent infringement if they resold the lamp burners in the United States. *Id.* at 703.

Thus, *Boesch* is not an exhaustion case: it did not involve a sale authorized by the patentee, but rather sales by a third party invoking a distinctly German prior use right, which could not subsequently preclude the patentee from collecting a royalty when the article was sold in the United States. *See LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) ("The present case, in contrast, involves an *authorized* sale made pursuant to a license under a United States patent. *Boesch* does not speak to this issue."). *Boesch* is perfectly consistent with international exhaustion, provided that the U.S. patent owner has authorized the sale abroad.

Furthermore, the decision below ignored this Court's rejection in *Kirtsaeng* of the notion that an international first-sale in copyright entailed extraterritorial application of U.S. law. *Kirtsaeng*, 133 S. Ct. at 1363. It ignored *Kirtsaeng*'s recognition that commentators as far back as the fifteenth century had "emphasize[d] the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods," *Kirtsaeng*, 133 S. Ct. at 1363 (citing 1 E. Coke,

Institutes of the Laws of England § 360, at 223 (1628) (commenting on Littleton, Treatise on Tenures (circa 1480)), and that "[t]he common-law doctrine makes no geographical distinctions," *id.* It neglected to consider that "a geographical interpretation would fail to further basic constitutional copyright objectives, in particular 'promot[ing] the Progress of Science and useful Arts,'" *id.* at 1364 (quoting U.S. Const. art. I, § 8, cl. 8) (alteration in original), dismissing *Kirtsaeng* without considering the shared common-law origins of patent and copyright law. Pet. App. 68a ("*Kirtsaeng* says nothing about patent law."). In doing so, the Federal Circuit inexplicably abandoned its position that "copyright cases inform similar cases under patent law." *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1375 n.9, 1376 (Fed. Cir. 2013) (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913)) (looking to *Kirtsaeng* and the "common policies underlying patent exhaustion and the first-sale doctrine" to hold that an authorized transfer of title exhausted the patent even when the item was given away).

The international exhaustion rule announced below undermines *Kirtsaeng* and reaches precisely the "absurd result" in patent law that the *Kirtsaeng* Court was determined to prevent under copyright law—namely, a rule where "the copyright owner can exercise downstream control even when it authorized the import or first sale." *Kirtsaeng*, 133 S. Ct. at 1366. The Court was concerned that such a rule "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software" where the car was manufactured abroad with software components purchased from foreign suppliers. *Id.* at

1365. Without international patent exhaustion, the same "absurd result" would persist in patent law. It would even affect many of the same products, such as cars, which contain patented as well as copyrighted components. Nothing justifies categorically inconsistent treatment of international sales under patent and copyright law given that the two regimes often govern the same products.

2. Contrary to the Federal Circuit's claim below, patent law is not especially territorial. *See* Pet. App. 86a. The territorial nature of patent law is hardly unique: "copyright laws do not have any extraterritorial operation," either. 4 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 17.02, at 17-18 (2012). *Kirtsaeng* rejected the view that international exhaustion requires extraterritorial application of U.S. copyright law, holding the Copyright Act "applicable" to anything "subject to protection" under it, including "unpublished works 'without regard to the nationality or domicile of the author,' and works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States." *Id.* at 1359 (emphasis omitted) (quoting 17 U.S.C. §§ 101, 104 (2006)). There is no basis for a different conclusion under patent law.

Moreover, international patent exhaustion does not entail extraterritorial application of U.S. law because it does not regulate foreign sales or foreign conduct—it merely affects how subsequent U.S. activities are regulated. *See LG Elecs., Inc.*, 655 F. Supp. 2d at 1047 (collecting Supreme Court and circuit cases). Additionally, other areas of patent law recognize that foreign conduct can affect subsequent

U.S. activities. For example, the novelty requirement for patentability provides that foreign use or sale of an invention can foreclose an inventor's ability to obtain U.S. patent rights. 35 U.S.C.A. § 102(a) (West 2015). Those foreign uses or sales are not themselves regulated, but nonetheless affect how subsequent U.S. patent applications are regulated.

3. As discussed above, exclusive rights do not necessarily include a right to price discriminate or segment markets. *See Kirtsaeng*, 133 S. Ct. at 1371. Although price discrimination across different markets may be useful in some circumstances, it may be harmful to consumers in other circumstances, and raises policy concerns that patent exhaustion is ill-suited to address. Eliminating international exhaustion to enable price discrimination would be a crude approach to a nuanced issue and would have ramifications for the free movement of patented goods across all sectors.

The Federal Circuit's concern about international patent exhaustion's impact on the availability of pharmaceutical products at lower prices outside the United States is misplaced. *See* Pet. App. 100a-101a. First, not all patients in developing countries benefit from price discrimination—even where there are bans on exporting drugs from developing countries, pharmaceutical companies still sometimes choose to sell drugs at high prices to the minority of patients who can afford to pay those prices. Sean Flynn, et al., *An Economic Justification for Open Access to Essential Medicine Patents in Developing Countries*, 37 J.L. Med. & Ethics 184 (2009) (demonstrating that if a national market is characterized by high levels of inequality, a profit-maximizing firm will cater to the

higher end of the market); *see also* Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 B.Y.U. L. Rev. 55, 80-81 (citing F. M. Scherer & Jayashree Watal, *Post-TRIPS Options for Access to Patented Medicines in Developing Nations*, 5 J. Int'l. Econ. L. 913 (2002)).

And whatever the impact of price discrimination on medicine, in many industries, such as software, price discrimination may not carry the same benefits, or may even be harmful. It would thus be unsound to allow concerns about one industry to determine the rule for all of patent law, especially when the industry is not representative of the economy and other, more tailored solutions are available. Disallowing international exhaustion to enforce price discrimination for pharmaceuticals would privilege that industry at the expense of all other industries that would not benefit from such a rule.

The pharmaceutical industry and the ability of others to reimport pharmaceuticals are already heavily regulated. *See, e.g.*, 21 U.S.C.A. § 381(d) (West 2016), *amended by* 21st Century Cures Act, Pub. L. No. 114-255, § 3101(a)(2)(W)(i)-(ii), 130 Stat. 1033, 1156-57 (2016) (restricting drug reimportation); 21 U.S.C.A. § 384 (West 2016) (restricting importation of prescription drugs). If additional protections are needed for any single industry, such protection should be achieved through legislation tailored for such purpose. Indeed, the pharmaceutical industry has proven itself capable of lobbying Congress for the pharmaceutical-specific legislation that represents a more appropriate solution to the access to medicines problem. Jay P. Kesan & Andres A. Gallo, *The Political Economy of*

the Patent System, 87 N.C. L. Rev. 1341, 1360-66 (2009) (demonstrating the influence of the pharmaceutical lobby).

Even without specific exceptions for industries such as the pharmaceutical industry, contract remedies can adequately enforce price discrimination across different markets. As this Court has held with respect to the enforcement of post-sale restrictions, the appropriate remedy to enforce price discrimination lies in contract, not patent law. *Keeler*, 157 U.S. at 666.

4. This Court should clarify that the same rules apply to international exhaustion as to domestic post-sale restrictions: patentees may recover only contract remedies for the breach of any restriction encumbering a patented item following its authorized sale.

Asserting that the Federal Circuit's complete rejection of international exhaustion was erroneous, the Solicitor General has suggested that this Court adopt international exhaustion as a default rule that applies unless a patentee expressly reserves rights to the contrary. Brief for the United States as *Amicus Curiae* on Petition for Writ of Certiorari 15. It follows that any such reservation of rights must be enforced under contract, not patent law, because enforcement via patent remedies would effectively eviscerate international exhaustion. *See Quanta*, 553 U.S. at 637 n. 7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even

though exhaustion operates to eliminate patent damages.").

If such reservations of rights were enforced through patent remedies, patentees would have little incentive not to reserve rights in full. By reserving such rights, patentees could preserve their ability to recover large patent remedy sums from all purchasers who violated the reserved rights, regardless of whether the patentee authorized the sales at issue. Enforcing patentees' reservations of rights with patent remedies would thus perpetuate the categorical elimination of international exhaustion that the Solicitor General rejected as erroneous. *See* Brief for the United States as *Amicus Curiae* on Petition for Writ of Certiorari 20. This Court should therefore recognize that any post-sale control of a patented item pursuant to an authorized sale abroad must be enforced through contract, not patent law.

CONCLUSION

Consistent with its precedent, this Court should reaffirm that patentees cannot enforce post-sale restrictions with patent remedies. Rather, patentees can enforce post-sale restrictions only with contract remedies, and only when such post-sale restrictions constitute a valid contract.

Similarly, this Court should recognize that the same common-law principles govern domestic and international patent exhaustion. Exhaustion allows patentees to enforce post-sale restrictions on patented goods only through contract, not patent law, regardless of the location of the first sale.

Respectfully submitted,

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD
INTELLECTUAL
PROPERTY AND
INNOVATION CLINIC
MILLS LEGAL CLINIC AT
STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

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APPENDIX

Amici curiae law professors are listed below. Affiliation is provided for identification purposes only, and the brief does not reflect the views of the listed institutions.

John R. Allison
Spence Centennial Professor
Professor of Intellectual Property Law
McCombs Graduate School of Business
University of Texas at Austin

Timothy K. Armstrong
Professor of Law
University of Cincinnati College of Law

Margo A. Bagley
Asa Griggs Candler Professor of Law
Emory University School of Law

Jeremy W. Bock
Assistant Professor of Law
Cecil C. Humphreys School of Law
The University of Memphis

Dan L. Burk
Chancellor's Professor of Law,
University of California, Irvine, School of Law

Michael A. Carrier
Distinguished Professor
Rutgers Law School

Ralph D. Clifford
Professor of Law
University of Massachusetts School of Law

Samuel F. Ernst
Assistant Professor
Dale E. Fowler School of Law
Chapman University

Stefania Fusco
Senior Lecturer
Note Dame Law School

Shubha Ghosh
George Young Bascom Professor in Business Law
Associate Director, INSITE
University of Wisconsin Law School

Amy Kapczynski
Professor of Law
Yale Law School

Ariel Katz
Associate Professor
Innovation Chair, Electronic Commerce
University of Toronto

Edward Lee
Professor of Law
Director, Program in Intellectual Property Law
Chicago-Kent College of Law

Mark A. Lemley
William H. Neukom Professor of Law
Director, Stanford Program in Law, Science, and Technology
Stanford Law School

Yvette Joy Liebesman
Professor of Law
Saint Louis University School of Law

Orly Lobel
Don Weckstein Professor of Employment and Labor Law
Faculty Member, Center for Intellectual Property & Markets
University of San Diego

Brian J. Love
Assistant Professor
Co-Director, High Tech Law Institute
Santa Clara University School of Law

Glynn Lunney
Professor of Law
Texas A&M University School of Law

Michael J. Madison
Professor of Law
Faculty Director, Innovation Practice Institute
University of Pittsburgh School of Law

Walter Matysik
Associate Provost
Adjunct Professor
Manhattan College

Stephen McJohn
Professor of Law
Suffolk University Law School

Mark P. McKenna
Associate Dean for Faculty Research and Development
Professor of Law and Notre Dame Presidential Fellow
Notre Dame Law School

Tyler T. Ochoa
Professor of Law
High Tech Law Institute
Santa Clara University School of Law

Mark R. Patterson
Professor of Law
Fordham University School of Law

Aaron Perzanowski
Professor of Law
Case Western Reserve University School of Law

Sarah R. Wasserman Rajec
Assistant Professor
William & Mary Law School

John A. Rothchild
Associate Professor
Wayne State University Law School

Pamela Samuelson
Richard M. Sherman Distinguished Professor of Law
Professor of School Information
Director, Berkeley Center for Law & Technology
University of California, Berkeley

Kurt M. Saunders
Professor of Business Law
California State University, Northridge

Jessica Silbey
Professor of Law
Northeastern University School of Law